

## Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

SCEM-02 INT-08 NEA-10 EUR-25 STR-08 DRC-01 SCI-06

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P 160820Z NOV 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 8254

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 15039

E.O. 11652: GDS

TAGS: ENRG, EGEN, JA

SUBJ: GOJ PAPER ON IMPACT OF ENERGY SHORTAGE

FOLLOWING IS TEXT OF PAPER ENTITLED "IMPACT ON JAPAN OF THE REDUCTION OF OIL SUPPLY BY OAPEC COUNTRIES". THIS PAPER, WHICH WAS GIVEN TO SECRETARY AT MEETING WITH FOREIGN MIN OHIRA ON NOVEMBER 14, PROVIDES GOOD SUMMARY OF HOW GOJ VIEWS PETROLEUM CRISIS (UNNECESSARY WORDS OMITTED).

BEGIN TEXT:

### 1. IMPACT OF THE REDUCTION OF OIL SUPPLY

(1) THE TOTAL AMOUNT OF OIL CUTBACKS IN WORLD OIL MARKET SO FAR CARRIED OUT BY OAPEC COUNTRIES AS RESULT OF DECISION OF THEIR OIL MINISTERS' CONFERENCE OF NOVEMBER 5, 1973, IS EXPECTED TO REACH LEVEL OF ABOUT 5.5-5.8 MILLION B/D.

(2) IMPACT OF SUCH REDUCTIONS ON JAPAN'S IMPORTS OF OIL DE-  
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PENDS LARGELY ON MAJOR OIL COMPANIES WHICH HAVE BEEN SUPPLY-

IN 70 PERCENT OF ALL OIL IMPORTED BY JAPAN. FOLLOWING REDUCTION OF OIL PRODUCTION AND OIL EMBARGO BY THE OAPEC COUNTRIES ON OCTOBER 17TH DIRECTED AGAINST THE UNITED STATES AND CERTAIN OTHER COUNTRIES, THE "MAJORS" HAVE ONE AFTER ANOTHER NOTIFIED THEIR SUBSIDIARY COMPANIES AND OTHER CLIENTS IN JAPAN THAT SHIPMENTS TO JAPAN WILL BE REDUCED, AND IT IS REPORTED THAT THERE HAVE BEEN SOME JAORS WHICH HAVE GIVEN NOTIFICATION OF THEIR INTENT TO REDUCE SUPPLIES BY MORE THAN 30 PERCENT OF THEIR REGULAR OIL SHIPMENTS TO JAPANESE CUSTOMERS. THIS SITUATION HAS ALSO CAUSED CERTAIN REPRERCUSSIONS ON OIL SUPPLY FROM NON-ARAB SOURCES. THIS IS OBVIOUSLY DUE TO THE FACT THAT COUNTRIES WHICH HAVE BEEN NOTIFIED OF PRODUCTION CUTS BY THE OAPEC COUNTRIES ARE NOW MAKING GREAT EFFORTS TO SECURE SUPPLIES OF OIL FROM NON-ARAB SOURCES.

(3) TAKING INTO CONSIDERATION ALL THE ABOVE FACTORS, IT IS ESTIMATED THAT DROP IN IMPORTS OF AT LEAST 20 PERCENT WILL TAKE PLACE IN JAPAN IN NOVEMBER DUE TO THE CUTS BY THE OAPEC COUNTRIES AND THAT DROP IN IMPORTS WILL BE ACCELERATED AFTER DECEMBER. JUDGING FROM LENGTH OF TIME TANKER TAKES TO REACH JAPAN AND THE LENGTH OF REFINING PROCESS, JAPAN IS GRAVELY CONCERNED THAT THE IMPACT WILL COME TO BE FELT FROM LATE NOV. TO DECEMBER AND THAT THE SITUATION MAY RAPIDLY BECOME MORE SERIOUS.

## 2. THE IMPACT OF OIL CUTBACKS ON JAPAN'S ECONOMY AND STOP-GAP DOMESTIC MEASURE

(1) THE IMPACT OF REDUCED OIL IMPORTS ON JAPAN'S ECONOMY WILL BE MORE FAR-REACHING THAN IN THE USA, THE U.K., WEST GERMANY AND OTHER MAJOR OIL-CONSUMING COUNTRIES. FIRST OF ALL, JAPAN DEPENDS ON OIL FOR 73.5 PERCENT OF ITS PRIMARY ENERGY CONSUMPTION. THIS DEPENDENCE IS VERY HIGH COMPARED WITH THE USA'S 44.6 PERCENT, THE UK'S 49.5 PERCENT AND WEST GERMANY'S 56.0 PERCENT. THUS OIL SUPPLY IS DIRECT DETERMINANT OF TREND OF JAPAN'S ECONOMY AS A WHOLE.

SECONDLY, JAPAN'S DEPENDENCE ON OVERSEAS OIL IS ALMOST 100 PERCENT, WHILE THAT OF THE USA, FOR EXAMPLE, IS APPROXIMATELY 30 PERCENT. CONSEQUENTLY, JAPAN IS IN POSITION IN WHICH SHE

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IS DIRECTLY AND VITALLY AFFECTED BY ANY REDUCTION OF OIL IMPORTS. FOR THESE REASONS, REDUCTIONS WILL NOT ONLY AFFECT HEATING SYSTEMS IN DAILY LIFE OF PEOPLE AND MOTORING IN THE TRANSPORTATION SECTOR, BUT THIS OIL CRISIS WILL ALSO HAVE FAR-REACHING EFFECTS ON THE VERTEBRA OF JAPAN'S HIGHLY ENERGY-CONSUMPTION-INTENSIVE ECONOMIC STRUCTURE AS WHOLE, PRESENTING POSSIBILITY OF SERIOUS CHAOS AND LARGE-SCALE DISRUPTIONS IN MANUFACTURING, MINING, AGRICULTURE, FORESTRY,

FISHERIES AND ALL THE OTHER ECONOMIC SECTORS AND, IT IS  
FEARED, EVENTUALLY LEADING TO SOCIAL UNREST.

THE FOLLOWING ILLUSTRATES THE PROBABLE NEGATIVE EFFECTS FORE-  
SEEN AT PRESENT:

(A) IF OIL USE IS REDUCED BY 16 PERCENT, WHICH IS THE CURRENT  
RATE OF CUTBACKS, THIS WILL RESULT IN SUBSTANTIAL REDUCTION  
OF PRODUCTION IN THE MAJOR INDUSTRIAL SECTORS AS SEEN BE-  
LOW.

THE ESTIMATED RATES OF REDUCTION IN PRODUCTION

	PERCENTAGE
STEEL	18.7
CEMENT	15.4
ETHYLENE	18.2
ALUMINUM	11.2

(B) SINCE REDUCTIONS IN OIL FLOW WILL HAVE FAR-REACHING AND  
EXTREMELY GRAVE EFFECTS ON ALMOST ALL INDUSTRIAL ACTIVITIES,  
THE LEVEL OF MINING AND MANUFACTURING PRODUCTION AS WHOLE  
WILL GO DOWN.

IF PRESENT PROGRESSIVE CUTS IN PRODUCTION CONTINUE AS SCHE-  
DULED IN OAPEC DECISION, IT IS ESTIMATED THAT MINING AND  
MANUFACTURING PRODUCTION FOR LATTER HALF OF THE CURRENT  
FISCAL YEAR WOULD BE 9 PERCENT DOWN ON FIRST HALF, THAT IS  
TO SAY, IT WOULD REVERT BACK TO THE SAME LEVEL AS THAT FOR  
THE FIRST HALF OF LAST YEAR (FISCAL 1972).

(2) THE GOVT (MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY)  
IS ADOPTING THE FOLLOWING MEASURES DESIGNED TO COPE WITH  
SITUATION WHICH IS DEVELOPING:

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ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

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USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01

SCEM-02 INT-08 NEA-10 EUR-25 STR-08 DRC-01 SCI-06

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C O N F I D E N T I A L SECTION 2 OF 2 TOKYO 15039

(A) CUTS OF ABOUT 10 PERCENT OF OIL CONSUMPTION BY LARGE SCALE USERS IN THE INDUSTRIAL SECTORS, SUCH AS THE IRON AND STEEL, ELECTRIC POWER, PETRO-CHEMICAL AND ALUMINUM SMELTING INDUSTRIES. REDUCTION IN ELECTRIC POWER CONSUMPTION WILL BE IMPOSED ON LARGE CONSUMERS USING MORE THAN 3,000 KW/HR. IN ADDITION, AUTHORITIES WILL CALL FOR A SUNDAY AND HOLIDAY BAN ON OIL SALES AT GAS STATIONS AS WELL AS GREATER ECONOMY IN HOUSEHOLD CONSUMPTION. FURTHER TIGHTENING OF OIL ECONOMY REGULATIONS AND EVEN INTRODUCTION OF BANS ON OIL USE ARE ENVISSAGED AS AND WHEN FURTHER OAPEC OIL CUTS AFFECTING JAPAN ARE IMPOSED.

(B) AT FORTHCOMING REGULAR SESSION OF NATIONAL DIET, THE GOVT INTENDS TO SUBMIT FOR DELIBERATION THE DRAFT OF AN EMERGENCY AND TEMPORARY LAW SO THAT EFFECTIVE MEASURES MAY BE ADOPTED WITH REGARD TO ALLOCATION AND RATIONING OF REFINED PETROLEUM PRODUCTS.

(3) THE CIRCUMSTANCES DESCRIBED ABOVE, COUPLED WITH OUR LOW LEVEL OF STOCKS IN CRUDE AND FUEL OIL AT 59 DAYS SUPPLY  
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(AS COMPARED WITH THE APPROXIMATELY 90 DAYS SUPPLY OF THE EUROPEAN COUNTRIES), LEAD US TO FEAR THAT IF OAPEC PRODUCTION CUTS PERSIST FOR WHAT WOULD BE A LONG PERIOD FROM 4-5 MONTHS RATIONING TO MORE THAN HALF A YEAR, IT WOULD BE EXTREMELY DIFFICULT, EVEN WITH THE EFFECTIVE IMPLEMENTATION OF THE ABOVE-MENTIONED DOMESTIC MEASURES, TO AVOID SERIOUS DISRUPTION OF ECONOMIC ACTIVITY. IT IS EXTREMELY PROBABLE THAT JAPAN'S ECONOMY WILL ANYWAY GRADUALLY ENTER AN EXTREMELY GRAVE SITUATION TOWARDS THE END OF THE FISCAL YEAR (MARCH 31, 1974) OR AT THE BEGINNING OF THE NEXT.

(4)(A) AS PRODUCTION ACTIVITY IN MINING AND MANUFACTURING LEVELS OFF, THE NATIONAL ECONOMY AS A WHOLE WILL ALSO DECLINE. THE NATION'S RATE OF ECONOMIC GROWTH WILL BE REDUCED TO PRACTICALLY ZERO (EVEN TEMPORARY DROPS TO MINUS TEN PERCENT ARE ENVISSAGED) IN THE LAST FOUR MONTHS OF FISCAL 1973 (DECEMBER THROUGH MARCH), WITH AVERAGE GROWTH RATE FOR THE WHOLE OF FISCAL YEAR DROPPING TO AN ESTIMATED 5-6 PERCENT COMPARED WITH THE GOVTS EARLIER ESTIMATE OF 10.7 PERCENT.

(B) HOWEVER, DEMAND, IF LEFT UNCONTROLLED, WILL CONTINUE ITS UPWARD TREND AT THE SAME PACE AS BEFORE THE OIL CUT-BACKS BY OAPEC. IT WOULD INEVITABLY HAPPEN THAT THE GAP BETWEEN THE LEVELING-OFF SUPPLY AND MOUNTING DEMAND WOULD WIDEN CONSIDERABLY. IT IS ESTIMATED THAT A GAP (EXCESS DEMAND) OF APPROXIMATELY \$7.4 BILLION IN REAL TERMS COULD WELL EMERGE AT THE END OF THIS YEAR OR TOWARDS MARCH OF NEXT YEAR.

(C) IF OIL SUPPLY IS FURTHER REDUCED IN FISCAL 1974, JAPAN WILL FACE VARIOUS PROBLEMS SUCH AS STAGNATION OF PRODUCTION ACTIVITY, WIDENING OF THE GAP BETWEEN SUPPLY AND DEMAND AND SERIOUS DECLINE IN THE RATE OF ECONOMIC GROWTH.

(D) THE GAP BETWEEN SUPPLY AND DEMAND ENVISAGED ABOVE WILL POSE FOR JAPAN UNPRECEDENTED CHALLENGE. THIS PAST SUMMER WE HAVE ALREADY EXPERIENCED SHORTAGES OF COMMODITIES AND PRICE INCREASES, AND SITUATION NOW CONFRONTING US WILL MULTIPLY THE PROBLEM AND MAKE IT INCOMPARABLY MORE SERIOUS. IT IS POSSIBLE THAT IMPENDING OIL SHORTAGE WILL BRING WITH IT NOT ONLY PROBLEMS SUCH AS PRICE INCREASES OR TIGHTENING OF THE SUPPLY AND DEMAND SITUATION BUT THAT IT MAY ALSO CAUSE SERIOUS SOCIAL CONFUSION IN JAPAN.

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(5) IF DEMAND IS LEFT UNCHECKED WHILE THE PRODUCTION OF VARIOUS COMMODITIES IS DROPPED, PRICE INCREASES WILL IMMEDIATELY RESULT.

SUCH A SITUATION WILL CAUSE SOCIAL CHAOS, ALL THE MORE SO BECAUSE THE CUTS IN PRODUCTION WILL BE DRASTIC. IT IS CONSIDERED MATTER OF UTMOST URGENCY THAT OVERALL AND EFFECTIVE POLICY DESIGNED TO REDUCE TOTAL DEMAND SHOULD BE ADOPTED TO AVOID ANY CHAOS IN OUR ECONOMY AND IN OUR SOCIETY AS A WHOLE. WITH RESPECT TO THE VARIOUS MEASURES MENTIONED ABOVE, IT IS NECESSARY THAT SOME COMPREHENSIVE POLICY BE WORKED OUT TO DEAL WITH ANTICIPATED DIFFICULTIES, PARTICULARLY THOSE WHICH WILL CONFRONT SMALL AND MEDIUM-SIZED INDUSTRIES.

END TEXT.

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## Message Attributes

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**Disposition Authority:** golinofr  
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